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A Program for
PARTIAL PAY-AS-YOU-GO FINANCING

MARYLAND STATE PLANNING COMMISSION
NOVEMBER 1954

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November 30, 1954

TO HIS EXCELLENCY
THEODORE R. McKELDIN
GOVERNOR OF MARYLAND

Dear Governor McKeldin:

I take pleasure in transmitting for your consideration a staff study, entitled "A Program for Partial Pay-As-You-Go Financing."

As a sequel to the Commission's 1953 study on the "Management and Limits of the State Debt," this project was undertaken to determine the possibilities for adopting a pay-as-you-go system for Maryland's long-term capital improvements. The proposed program, adapted to Maryland's fiscal capacities, is based on a nation-wide survey of the methods used by other states in paying for capital improvements out of current and accumulated revenues.

It is noteworthy that recommendations for pay-as-you-go financing were made by the Commission as early as 1945 and endorsed by the Sobeloff Commission in 1952. However, owing to the exceptionally high level of expenditure required to meet urgent construction demands in the postwar period, the established policy of financing capital improvements principally through bond issues was necessarily continued by the State. Now that this phase of the Capital Improvement Program is nearing completion, it is possible to view long-range needs in their proper perspective.

The Commission believes that the proposed program offers a sound fiscal basis for integrating partial pay-as-you-go financing into the revenue system of the State. At the same time, the program insures the means for meeting the continuing irreducible demands for capital improvements without occasioning a continuing growth in the State debt.

Respectfully submitted,

James Alban

James C. Alban
Chairman

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ACKNOWLEDGMENTS

The Commission wishes to acknowledge with grateful appreciation the valued services rendered by Mr. Albert R. Miller, Jr., in the successful completion of this study. Under the guidance of Mr. I. Alvin Pasarew, Director, and Mrs. Shirley F. Weiss, Staff Economist, Mr. Miller conducted the survey of the 48 states, analyzed the returns, carried out original research and interviews regarding sources for financing capital improvements, and consolidated his findings in the report which follows. Having completed the Commission's earlier study on "Management and Limits of the State Debt," Mr. Miller was well qualified in State financial problems to undertake the present investigation. The Commission is confident that the program proposed will lay a sound foundation for using current revenues to pay for part of the State's continuing construction needs.

Grateful appreciation is also extended to the state officials throughout the country who responded to the Commission's survey questionnaire, as well as the various statistical and research groups who made their data available for the Commission's use. In particular, the Commission would like to acknowledge the substantive contributions make through interviews and/or basic information furnished by the following State and Federal agencies: Bureau of Revenue Estimates, State Tax Commission, Office of the Comptroller of the Treasury, U. S. Bureau of the Census, and Commission on Intergovernmental Relations.

FOREWORD

In the period from 1948 to 1953, approximately seventy per cent of all capital improvement expenditures (exclusive of highways) by the State of Maryland were financed through bond issues, and virtually the whole of the balance was financed through the allocation of budgetary surplus. As a source of funds for capital improvements, however, budgetary surpluses are nearly depleted and cannot be relied upon to hold in check the annual amount of borrowing and the concomitant growth in the size of the State debt.

Although recommendations for pay-as-you-go financing were made by the Commission as early as 1945 and endorsed by the Sobeloff Commission in 1952, the established policy of financing capital improvements principally through bond issues has found justification in the exceptionally high level of expenditure required to meet urgent construction demands in the postwar period.

This phase of the State's capital improvement program, however, is largely over, and it is now possible to view long-range capital needs in their proper perspective. It is abundantly clear that future expenditures, although substantially lower than those figures recorded in recent years, will continue at a fairly sizeable annual level due to irreducible demands for replacement, modernization, and expanded facilities. If capital improvements continue to be financed through borrowing, too large a proportion of future revenues may be committed to debt service and affect adversely the flexibility of over-all fiscal operations. If financed entirely on a pay-as-you-go basis from current revenue, too large an upward adjustment in taxes would be required.

The solution to this problem lies in the implementation of a planned program of partial pay-as-you-go financing. The program proposed herein is based on a careful appraisal of the experience of other states in financing their capital improvement expenditures without recourse to borrowing, considered in relation to the fiscal capabilities of the State of Maryland. By integrating into the revenue system of the State the means for partial pay-as-you-go financing, the Commission's program insures that the continuing irreducible demands for capital outlay will be met on a sound fiscal basis. Furthermore, wherever practicable, the possibility of paying for projects on a self-liquidating basis should be given serious consideration. This recommendation was incorporated in the Commission's 1951 report on "Financing Capital Improvements in Maryland."

CHAPTER I

SURVEY OF THE STATES

Introduction

In order to determine the extent to which other states have been financing their capital outlay expenditures (exclusive of highways) during recent years without recourse to borrowing and the methods used by them in allocating current and surplus revenue, the Maryland State Planning Commission undertook a nation-wide survey in the spring of 1954. Questionnaires were sent to each of the forty-eight states and replies were received from forty-four.[1] Of this number, thirty-six states submitted data relative to their capital outlay expenditures (exclusive of highways) sufficiently complete for tabulation and analysis.

Capital Outlay Expenditures, Exclusive of Highways, 1948-1953

The statistical findings of the Commission's survey are summarized in Table 1, which shows in totals covering the period 1948-1953 for each of the thirty-six states: (a) capital outlay expenditures (exclusive of highways) financed solely from current and/or accumulated revenues; (b) capital outlay expenditures (exclusive of highways) financed from all sources; and (c) general revenue (exclusive of federal funds). The corresponding average annual rates are shown in Table 2.

Expenditures Financed From All Sources. Totaled for the six-year period, 1948-1953, expenditures financed from all sources ranged from $506,354,963, or an average annual rate of $84,392,494, recorded for California, to $3,023,679, or an average annual rate of $503,947, recorded for

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[1] A sample questionnaire is included in Appendix A.

TABLE 1

CAPITAL OUTLAY FINANCED FROM CURRENT AND ACCUMULATED REVENUE, CAPITAL OUTLAY FINANCED FROM ALL SOURCES, AND GENERAL REVENUE,[1] 36 STATES

Cumulative Totals, 1948-1953

State	Capital Outlay Financed from Current and/or Accumulated Revenue	Rank	Capital Outlay Financed from All Sources[2]	Rank	General Revenue[3]	Rank	Capital Outlay Financed from Current and/or Accumulated Revenue as a Per cent of:	
							Column (3)	Column(4)
(1)	(2)		(3)		(4)		(5)	(6)
Alabama	$ 22,370,000	22	$ 27,832,000	25	$ 849,189,000	19	80.4%	2.6%
Arizona	21,705,904	23	29,236,310	24	406,726,000	28	74.2	5.3
Arkansas	16,734,389	25	21,995,654	27	583,035,000	26	76.1	2.9
California	506,354,963	1	506,354,963	1	5,957,504,000	1	100.0	8.5
Colorado	16,001,698	26	18,587,812	28	644,117,000	24	86.1	2.4
Connecticut	29,880,707	19	76,780,190	12	813,707,000	20	38.9	3.7
Idaho	11,563,339	27	11,563,339	29	247,067,000	32	100.0	4.7
Illinois	149,182,000	3	149,182,000	4	2,618,091,000	6	100.0	5.7
Indiana	75,299,999	9	75,299,999	13	1,530,072,000	10	100.0	4.9
Iowa	32,469,402	18	32,469,402	23	1,063,675,000	16	100.0	3.1
Kentucky	33,300,000	17	60,834,600	15	748,457,000	22	54.8	4.5
Louisiana	39,127,800	15	39,127,800	21	1,675,511,000	9	100.0	2.3
Maine	3,201,585	34	6,529,238	35	329,315,000	29	49.0	1.0
Maryland	24,205,988	21	81,284,153	11	931,264,000	18	29.8	2.6
Massachusetts	4,343,566	32	122,319,301	8	1,798,761,000	8	3.6	0.2
Michigan	97,384,252	6	116,243,878	9	3,025,670,000	4	83.8	3.2
Mississippi	39,500,000	14	39,500,000	19	644,733,000	25	100.0	6.1
Nebraska	11,321,229	28	11,321,229	30	407,030,000	27	100.0	2.8
Nevada	1,594,382	36	3,023,679	36	100,371,000	36	52.7	1.6
New Hampshire	2,662,134	35	9,444,955	32	168,795,000	33	28.2	1.6
New Jersey	17,577,100	24	70,477,300	14	1,151,329,000	13	24.9	1.5
New York	274,607,229	2	274,607,229	2	5,808,370,000	2	100.0	4.7
Ohio	144,870,000	4	144,870,000	5	2,682,080,000	5	100.0	5.4

For footnotes, see end of table.

TABLE 1 (Continued)

State	Capital Outlay Financed from Current and/or Accumulated Revenue	Rank	Capital Outlay Financed from All Sources[2]	Rank	General Revenue[3]	Rank	Capital Outlay Financed from Current and/or Accumulated Revenue as a Per Cent of: Column (3)	Column (4)
(1)	(2)		(3)		(4)		(5)	(6)
Oklahoma	$ 68,613,890	10	$107,622,542	10	$ 1,133,816,000	14	63.8%	6.1%
Oregon	47,908,418	12	57,359,133	17	759,170,000	21	83.5	6.3
Pennsylvania	88,700,608	8	137,405,899	6	3,179,403,000	3	64.6	2.8
Rhode Island	4,403,631	31	33,503,664	22	296,947,000	30	13.1	1.5
South Dakota	10,566,069	29	10,566,069	31	289,179,000	31	100.0	3.7
Tennessee	26,570,541	20	27,668,610	26	1,029,451,000	17	96.0	2.6
Texas	133,385,895	5	160,509,810	3	2,457,246,000	7	83.1	5.4
Vermont	2,840,769	33	8,269,540	33	150,031,000	35	34.4	1,9
Virginia	59,266,777	11	59,266,777	16	1,092,646,000	15	100.0	5.4
Washington	94,575,959	7	122,467,438	7	1,490,691,000	11	77.2	8.2
West Virginia	45,854,133	13	47,676,030	18	687,034,000	23	96.2	6.9
Wisconsin	37,756,191	16	39,388,305	20	1,481,129,000	12	95.9	2.6
Wyoming	8,028,327	30	8,028,327	34	151,824,000	34	100.0	5.3

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[1] Capital outlay, exclusive of expenditures for highways; general revenue, exclusive of intergovernmental revenue from Federal Government.

[2] Source: Maryland State Planning Commission's survey of the states.

[3] Source: U.S. Bureau of the Census, "Summary of State Government Finances in 1953"; "Compendium of State Government Finances: 1952"; "Compendium of State Government Finances: 1951"; "Revised Summary of State Government Finances, 1942-1950."

Figures for 1949 represented by mid-way points between Census figures supplied for the years 1948 and 1950.

General revenue is defined by the Bureau of the Census as comprising all state revenues, excluding liquor store and insurance trust revenues.

TABLE 2

CAPITAL OUTLAY FINANCED FROM CURRENT AND ACCUMULATED REVENUE, CAPITAL OUTLAY FINANCED FROM ALL SOURCES, AND GENERAL REVENUE[1/]

36 STATES

Average Annual Rates, 1948-1953

State	Capital Outlay Financed from Current and/or Accumulated Revenue[2/]	Capital Outlay Financed from All Sources[2/]	General Revenue[3/]	Capital Outlay Financed from Current and/or Accumulated Revenue as a Per Cent of:	
				Column (3)	Column (4)
(1)	(2)	(3)	(4)	(5)	(6)
Alabama	$ 3,728,333	$ 4,638,666	$141,532,000	80.4%	2.6%
Arizona	3,617,651	4,872,180	67,788,000	74.2	5.3
Arkansas	2,789,065	3,665,942	97,006,000	76.1	2.9
California	84,392,494	84,392,494	992,917,000	100.0	8.5
Colorado	1,921,331	3,097,969	110,686,000	62.0	1.7
Connecticut	4,980,118	12,796,698	102,285,000	38.9	3.7
Idaho	1,927,223	1,927,223	41,178,000	100.0	4.7
Illinois	24,863,667	24,863,667	436,349,000	100.0	5.7
Indiana	12,550,000	12,550,000	255,012,000	100.0	4.9
Iowa	5,411,567	5,411,567	177,279,000	100.0	3.1
Kentucky	5,550,000	10,139,100	124,743,000	54.8	4.5
Louisiana	6,521,300	6,521,300	279,252,000	100.0	2.3
Maine	533,598	1,088,206	54,886,000	49.0	1.0
Maryland	4,034,331	13,547,359	155,211,000	29.8	2.6
Massachusetts	723,928	20,386,550	299,794,000	3.6	0.2
Michigan	16,230,709	19,373,980	504,278,000	83.8	3.2
Mississippi	6,583,333	6,583,333	107,456,000	100.0	6.1
Nebraska	1,886,872	1,886,872	67,838,000	100.0	2.8
Nevada	265,730	503,947	16,729,000	52.7	1.6
New Hampshire	443,689	1,574,159	28,133,000	28.2	1.6
New Jersey	2,929,517	11,746,217	191,888,000	24.9	1.5
New York	45,767,872	45,767,872	968,062,000	100.0	4.7
Ohio	24,145,000	24,145,000	447,013,000	100.0	5.4

For footnotes, see end of table.

TABLE 2 (Continued)

State	Capital Outlay Financed from Current and/or Accumulated Revenue[2]	Capital Outlay Financed from All Sources[2]	General Revenue[3]	Capital Outlay Financed from Current and/or Accumulated Revenue as a Per Cent of:	
				Column (3)	Column (4)
(1)	(2)	(3)	(4)	(5)	(6)
Oklahoma	$11,435,648	$17,937,093	$188,969,000	63.8%	6.1%
Oregon	7,984,403	9,559,856	126,528,000	83.5	6.3
Pennsylvania	14,783,436	22,900,983	529,901,000	64.6	2.8
Rhode Island	733,939	5,583,944	49,491,000	13.1	1.5
South Dakota	1,761,012	1,761,012	48,197,000	100.0	3.7
Tennessee	4,428,424	4,611,435	171,542,000	96.0	2.6
Texas	22,230,983	26,751,635	409,541,000	83.1	5.4
Vermont	473,462	1,378,253	25,005,000	34.4	1.9
Virginia	9,877,796	9,877,796	182,108,000	100.0	5.4
Washington	15,762,660	20,411,240	248,449,000	77.2	8.2
West Virginia	7,642,356	7,946,005	114,506,000	96.2	6.9
Wisconsin	6,292,699	6,564,718	246,855,000	95.9	2.6
Wyoming	1,336,055	1,336,055	25,304,000	100.0	5.3

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[1] Capital outlay, exclusive of expenditures for highways; general revenue, exclusive of intergovernmental revenue from Federal Government.

[2] Source: Maryland State Planning Commission's survey of the states.

[3] Source: U. S. Bureau of the Census, "Summary of State Government Finances in 1953"; "Compendium of State Government Finances: 1952"; "Compendium of State Government Finances: 1951"; "Revised Summary of State Government Finances," 1942-1950."

General revenue is defined by the Bureau of the Census as comprising all state revenues, excluding liquor store and insurance trust revenues.

Nevada. With a total amounting to $81,284,153, or an average annual rate of $13,547,359, Maryland ranked eleventh in size of expenditure financed from all sources.

Expenditures Financed from Current and/or Accumulated Revenue. Totaled for the six-year period, 1948-1953, expenditures financed solely from current and/or accumulated revenue ranged from $506,354,963, or an average annual rate of $84,392,494, recorded for California, to $1,594,382, or an average annual rate of $265,730, recorded for Nevada. With a total amounting to $24,205,988, or an average annual rate of $4,034,331, Maryland ranked twenty-first in size of expenditure financed from current and/or accumulated revenue.

Expenditures Financed from Current and/or Accumulated Revenue as a Per Cent of Expenditures Financed from All Sources. The proportion of expenditures financed solely from current and/or accumulated revenue ranged from 100.0% to 3.6%. Twenty-eight states financed 50% and upwards of their expenditures without recourse to borrowing; twenty-one states financed 80% and upwards; thirteen states financed the entire amount, i.e., 100%. It ought to be remarked that the states with the highest records of performance (80% and upwards)[2] varied widely with respect to the size of both expenditures and general revenue (e.g., California, Wyoming).

Maryland, with a ratio of 29.8%, was included among the eight states that financed less than half of their expenditures from current and/or accumulated revenue.

Expenditures Financed from Current and/or Accumulated Revenue as a Per Cent of General Revenue.[3] Considered in relation to general revenue (exclusive of federal funds), expenditures financed from current and/or

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[2] A few of these states made no allocations at all from surplus.

[3] Excepting for a few states whose expenditures consisted principally of allocations from surpluses accumulated during World War II, the percentages reflect quite accurately the extent to which current revenue during the period was deflected to capital outlay (exclusive of highways).

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

accumulated revenues ranged from 8.5%, recorded for California, to 0.2%, recorded for Massachusetts. Twenty of the states, or more than half, had ratios ranging from 3.0% to California's high, 8.5% . In most instances, the states with the highest percentages were those with general revenues ranked below the first ten. A majority of the states with low percentages, however, had correspondingly low general revenues.

Maryland, with a ratio of 2.6%, was included among the sixteen states with ratios of 2.9% and below.

Methods of Allocating Current and/or Accumulated Revenue

The quantitative findings of the Commission's survey thus disclosed that the states have been financing a larger proportion of their capital outlay expenditures (exclusive of highways) without recourse to borrowing than perhaps is generally recognized.4/ What methods, then, were used in allocating current and/or accumulated revenue to this type of expenditure?

Some states, for example, Oregon and Michigan, accorded to capital outlay items the same budgetary and legislative review as any other current expenditure request in making their allocations. In the case of Maine, however, a sharp division was made between durable equipment and major projects. Allocations to durable equipment were made from current revenue; those to major projects, from unappropriated surpluses.

In other states, for example, Illinois, Idaho, and Louisiana, capital outlay allocations were determined residually, that is, after allowances had been made for all other current expenditures. A variant of this approach was noted in the case of Arizona where the property tax was used

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4/ It is noteworthy that the percentage increases in state debt from 1948 to 1953 were relatively small for most of the states that financed 80% and upwards of their capital outlay expenditures (exclusive of highways) from current and/or accumulated revenue.

to make up the difference between appropriations, including capital outlay, on the one hand, and fiscal resources, consisting of expected current revenue plus general fund surplus, on the other. Capital items included in the operating budget were given careful study by the legislature with a view to holding the property tax levy at a relatively stable figure.

Several states, for example, Ohio and West Virginia, systematically allocated surpluses accumulated during each preceding fiscal period, either entirely, or, in part, to capital outlay. A number of states, on the other hand, dedicated revenues from specific tax and non-tax sources (e.g. Texas, North Carolina).5/ One state only used a prescribed formula, namely, Wisconsin, where allocations were determined in accordance with a specified percentage of the appraised value of property.

Allocations from Specific Revenue Sources

Of the seven states levying special taxes for the purpose, all but one dedicated the revenues entirely to capital outlay. As shown in Table 3, proceeds from the property tax in Nebraska, the cigarette tax in Wisconsin, and the alcoholic beverage taxes in Indiana were earmarked for capital outlay in general; property taxes in Colorado, Kansas, and Texas, on the other hand, were reserved for special building construction funds of state institutions; West Virginia levied a soft drink tax for a single building project, namely, the construction of a medical school at the state university. Receipts from the cigarette tax in Texas, however, were dedicated only in part, 75% going to a special building fund, but not in excess of $5,000,000 per annum.

Utah levied a 2% sales tax for general welfare purposes, and amounts accumulated in excess of $5,000,000 were transferred to the state's

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5/ Some of these states used other of the described methods as well in allocating current and/or accumulated revenue.

TABLE 3

STATES WITH SPECIFIC TAX REVENUES RESERVED FOR CURRENT CAPITAL OUTLAY, EXCLUSIVE OF HIGHWAY EXPENDITURES[1]

Tax Source	State	Year	Rate	Revenue	Explanatory Remarks of Survey Respondents
Property	Colorado	1948	.149 Mill	$ 261,867	Revenue goes to building mill levy funds of 23 state institutions. State Treasurer may issue anticipation warrants up to 80% of expected income of each mill levy fund. Sums borrowed at 3% from trust funds held by state and payable not later than 1957.
		1949	.149	288,786	
		1950	1.529	2,464,638	
		1951	1.529	2,513,748	
		1952	1.529	2,649,702	
		1953	1.074	2,654,244	
	Kansas	2/	.500 Mill	3/	Special levy authorized by constitution for educational buildings and improvements. Recently raised to 3/4 mill.
		4/	.500 Mill	3/	Special levy authorized by constitutional amendment in 1952 for state eleemosynary institution building and improvement fund.
	Nebraska	1948	2.340 Mill	$ 1,979,489	Dedicated revenue for capital outlay.
		1949	.760	2,708,370	
		1950	2.560	2,943,368	
		1951	2.850	3,038,666	
		1952	3.410	3,339,665	
		1953	2.850	3,617,389	
	Texas	2/	.500 Mill	3/	College Building Fund.

For footnotes, see end of table.

TABLE 3 (Continued)

Tax Source	State	Year	Rate	Revenue	Explanatory Remarks of Survey Respondents
Cigarette	Texas	2/	1¢ pack	3/	75% of revenue goes to Hospital and Special Schools Building Fund; revenues in excess of $5,000,000 per annum spill over into General Fund.
	Wisconsin	1950	1¢ pack	$ 3,316,672	Dedicated revenue for capital outlay.
		1951	1¢	3,359,735	
		1952	1¢	3,472,632	
		1953	1¢	3,543,111	
Alcoholic Beverage	Indiana	1948		$ 5,762,317	Dedicated revenue for capital improvements.
		1949	(Beer $ .08 gal.)	5,560,303	
		1950	(Wine .25)	5,617,586	
		1951	(Alcohol 1.00)	6,346,754	
		1952		5,880,198	
		1953		6,084,665	
Soft Drink	West Virginia	1952	(Bottle .01¢)	$ 2,986,483	For construction of medical school at U. of W. Va.
		1953	(Syrup .80¢ gal.)	3,057,822	

1/ Data and information supplied in answer to Question #3 of questionnaire.
2/ Presumably in effect throughout period under consideration.
3/ No data supplied by respondent to questionnaire.
4/ Presumably in effect since 1952.

reserve building fund. California, on the other hand, appropriated $37,109,000 from horse racing taxes levied for general revenue purposes to capital outlay (exclusive of highways) over the ten-year period, ending June 30, 1954.

Sometimes allocations were simply traceable to specific tax sources. In Tennessee, for example, 80% of all sales tax revenues were earmarked for general educational purposes, and consequently, sums allocated to the Department of Education for capital outlay clearly stemmed from this explicit tax source. In Oregon, state agencies receiving earmarked tax revenues were restricted to those sources whenever their capital outlay requests came up for review.

Three states dedicated revenues from non-tax sources. Oklahoma earmarked income from certain state-owned land for institutions of higher learning. In Texas, earnings from the Permanent University Fund investments, from the sale of sand, shell, and gravel, and from lease-rentals of University of Texas lands were dedicated to the construction of buildings and the purchase of land for the University of Texas, Texas A&M College, and for certain constitutional branches. North Carolina allocated to capital outlay receipts from the sale of property, fire losses, and gifts.

Fiscal Mechanics of Allocating Current and Accumulated Revenues

Allocations to capital outlay were made either directly or by transfer from the resources of general funds, special building funds, and special funds established for other purposes entirely.

General fund appropriations, as a rule, were made directly from current revenues (e.g., Illinois, North Carolina, Virginia) and/or from surpluses accumulated either in the immediately preceding fiscal period or during World War II. Sometimes, however, general fund revenues were transferred to special building funds (e.g., California, Colorado).

Special building fund appropriations usually were made from specific tax and non-tax revenues, but sometimes, as in the case of California and Missouri, from reserves set aside during World War II to meet postwar building construction needs. The reserves of special building funds, as we have seen, were occasionally supplemented by general fund transfers. Colorado, which had separate building mill levy funds for twenty-three state institutions, transferred resources from two of these funds to two others.

In a few instances, appropriations were made from special funds established for other purposes altogether. Nevada, for example, allocated resources of the Highway Building Fund and the Governor's Emergency Fund. Diversions were noted also in the case of Alabama and California.

Summary and Conclusions

The majority of the thirty-six states included in the Commission's survey financed 50% and upwards of their capital outlay expenditures (exclusive of highways) during the period 1948-1953 without recourse to borrowing; twenty-one states financed 80% and upwards; thirteen states financed the full amount.

The high percentages recorded for many of the states were due principally to the accumulation of budgetary surpluses both during and following World War II and the dedication of these funds at least in part to capital outlay. Quite often, states that drew heavily upon surpluses appropriated additional amounts from current revenues or employed other measures of fiscal expediency (i.e., transfers from special funds established for other purposes entirely) whenever necessary to escape borrowing in more than nominal amounts.

The high percentages recorded for other of the states, however, were due more importantly to the almost equal status accorded to capital outlay as an item in the current budget and the allocation of current revenues

in sufficient amount to cover a substantial proportion of authorizations. Among those were included most of the states that levied specific taxes for the purpose.

What, then,are the prospects for the future? It seems quite clear that those states whose record of performance depended largely upon allocations from surplus, will more than likely, if they maintain the pace of their capital outlay expenditures (or only reduce them moderately), and unless, too, they resort more and more to borrowing, either have to increase present tax rates or develop new tax sources, or both. This is so because surpluses originating during World War II have already been exhausted and those which characterized the postwar years will probably disappear in the future due to the more rapid increase in the cost of government than revenues. Thus, in order to maintain a relatively high ratio of current-financed to total expenditures, a significant change from past methods of financing will be required.

Those states, on the other hand, whose record of performance was due principally to the competitive status accorded to capital outlay and allocations from current revenues will probably find it less difficult to maintain fairly high ratios of non-deficit financed expenditures, for they have already integrated into their revenue systems the means of pay-as-you-go financing.

CHAPTER II

CRITERIA FOR DETERMINING THE PROPER METHOD OF FINANCING CAPITAL OUTLAY EXPENDITURES

Introduction

With the exception of capital outlay, the general expenditures of a state are normally financed from current revenues and surplus, and only in the case of extraordinary circumstances (i.e., temporary deficits requiring the issuance of tax anticipation warrants or veterans' bonuses calling for special bond issues) is resort made to borrowing. This, of course, complies with generally accepted principles of sound public finance. Capital outlay, however, is the only continuously reoccurring item of general expenditure which may be financed optionally, either through the creation of debt or from current revenue and surplus, or, both. Some states, as we have seen, financed the whole of their capital outlay expenditures (exclusive of highways) during recent years without recourse to borrowing. A majority of them, however, drew upon both borrowed and current funds (including surpluses), and the proportions varied widely according to differences in fiscal conditions and policies.

In view of the wide disparity among the states, are we to conclude that the financing of capital outlay expenditures (i.e., deficit vs. non-deficit) is entirely permissive, or, are there criteria by which the proper method can be determined? While this problem, excepting for considerations of economic stability and counter-cyclical fiscal policy, has received far too little attention on the part of fiscal experts, several criteria have, in fact, been advanced, and we shall examine each of them critically to see what guidance they actually provide in the formulation of sound fiscal policy.

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Time Preference for Current Income

When a capital outlay project is financed on a pay-as-you-go basis, current taxes are increased sufficiently to cover the cost in a single payment and the current income of taxpayers is correspondingly reduced; when financed through borrowing, future taxes are increased sufficiently to cover the cost plus interest in a series of annual payments and the future income of taxpayers is reduced instead. Because of the apparent choice between current and future income which these two alternative means of paying for a capital outlay project are supposed to afford, it has been suggested that, in selecting the proper method of financing, consideration be given to the preferences of taxpayers for current income and their willingness to pay a premium in the form of interest for the privilege of prorating the cost over time.[6]

As a guide to fiscal policy, the time-preference criterion has two principal limitations. The first is the presumption that the sanctioning of a bond issue (either by referendum or through chosen representatives in the legislature) reflects the psychological attitudes of taxpayers in general toward their current and future incomes. Such would be the case only if most of the taxpayers were cognizant of the fact that borrowing today means higher taxes tomorrow and if they expected to bear their proper share of the future tax burden.[7] The second is the theoretical limit which the time-preference criterion assigns to borrowing. Suppose, for example, that taxpayers actually made a conscious choice between current and future

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[6] Haig, Robert M., and Shoup, Carl S. The Financial Problem of the City of New York. A Report to the Mayor's Committee on Management Survey. June, 1952, pp. 538-40.

[7] A surprisingly large percentage of taxpayers either regard borrowing as a real alternative to taxation and fail to perceive that future taxes must be raised sufficiently to cover principal plus interest on borrowed sums or feel that the burden of future taxes will be shifted to another class of taxpayers, which is particularly true where debt is serviced through the levy of a specific tax (e.g., property tax).

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income. Then borrowing might be permitted to increase up to the point just beyond which the slightest increase in the rate of interest would cause them to sanction additional capital outlay expenditures only if financed alternatively on a pay-as-you-go basis from current revenue. Clearly, the amount of deficit financing arrived at through the interest rate mechanism might in many instances be far in excess of that justified on all other economic grounds.

Value-Maintaining vs. Value-Increasing Expenditures

The second criterion for determining the proper method of financing is based upon the distinction sometimes made between value-maintaining (i.e., replacement) and value-increasing capital outlay expenditures. Value-maintaining expenditures, it has been suggested, should be treated as a part of the state's operating budget and financed from current revenue, excepting when material shortages originating in a national emergency have caused a sizeable backlog of deferred maintenance. Value-increasing expenditures, on the other hand, merit financing at least partially through the creation of debt.8/

Without denying the essential correctness of financing typically replacement expenditures on a pay-as-you-go basis from current revenue, the categorical distinction between value-maintaining and value-increasing capital outlay expenditures raises problems of a conceptual nature which greatly impair its usefulness as a guide to fiscal policy. Supposing, for example, that a structure that originally cost $100,000 is replaced with one affording identical facilities, but which due to a general rise in prices today costs $200,000. Are we to conclude that $100,000 of the cost of the

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8/ Mariner, Elwyn E. The Postwar Capital Outlay Program of the Commonwealth of Massachusetts. The Massachusetts Federation of Taxpayers Association, Inc., Boston, June 1952, p. 22,30. Haig and Shoup, too, subscribe to the opinion that capital outlay expenditures of a replacement character should be financed principally from current revenue (op. cit., pp. 540-41).

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new structure is value-increasing and therefore eligible for financing through borrowing? Or, to take another hypothetical case, suppose that a structure that originally cost $100,000 is replaced with one affording expanded facilities, but which because of technological changes in the building trades industry today costs $100,000, as before. Are we to conclude that the expenditure is entirely value-maintaining and must therefore be financed on a pay-as-you-go basis from current revenue? And even were it possible to draw a fine line between value-maintaining and value-increasing expenditures, there is no reason to suppose that the resulting ratio of pay-as-you-go and deficit-financed expenditures would always be commensurate with other fiscal considerations and objectives.

Size and Regularity of Expenditures

Thirdly, the proper method of financing capital outlay has been approached from the standpoint of the size and regularity of expenditures, on the one hand, and the stability of tax rates, on the other. According to this criterion, non-reoccurring large-scale expenditures require deficit financing in order to circumvent disequilibrating fluctuations in tax rates.[9] In the case of regularly reoccurring large-scale expenditures, however, no such *prima facie* argument favors borrowing, for even if financed entirely from current revenue, capital outlay programs of this order will leave tax rates unchanged once the means of pay-as-you-go financing have been integrated into the revenue system and tax structure.[10] As a general rule, a substantial proportion of current financing is called for.[11] Small-scale capital outlay programs, however, invariably require financing from current

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[9] Haig and Shoup, *op. cit.*, pp. 538-40. According to Mariner, however, the deficit-financing of even non-reoccurring large-scale projects is justified only if total requirements are fully known beforehand and the entire project can be provided for in a single lump-sum authorization. Otherwise, partial pay-as-you-go financing is called for, *op. cit.*, pp. 31-2.

[10] *Ibid.*

[11] *Ibid.*

revenue, for even if irregular and financed entirely on a pay-as-you-go basis, they can affect only slightly the stability of tax rates.[12]

With respect to non-reoccurring large-scale capital outlay expenditures and the argument favoring deficit financing, several observations ought to be made. First, pay-as-you-go financing from current revenue is not the sole alternative to borrowing. Stability of tax rates would be achieved also through the setting aside of a fixed sum annually from current revenue and/or surplus for special projects (i.e., reserve financing) or through the dedication of budgetary surpluses, if available. Secondly, deficit financing will not insure tax-rate stability where debt is serviced from a specific tax source, for taxes levied for the purpose would still be subject to sharp fluctuations due to sudden increases in debt-financed expenditures of a sizeable magnitude. Thirdly, in selecting the proper method of financing a major non-reoccurring project, consideration should be given to the possibility that the taxpayers might willingly sanction the levy of a special tax or temporary increase in current tax rates in order to defray at least a portion of the cost without recourse to borrowing.

Counter-Cyclical Fiscal Policy

The fourth criterion is based upon considerations respecting economic instability. It is suggested by the advocates of counter-cyclical fiscal policy that reserves be set aside from current revenue during periods of economic prosperity for the purpose of initiating special building construction projects (e.g., planned public works) during periods of economic recession and depression, and that non-postponable capital outlay expenditures be financed largely on a pay-as-you-go basis from current revenue. During periods of economic recession and depression, however, capital

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[12] Ibid.

outlay should be financed both through the expenditure of reserves previously accumulated for the purpose and through borrowing. By withdrawing funds from the income stream in cyclical upswings and by adding to the stream in cyclical downswings, counter-cyclical financing of capital outlay expenditures is expected to exert a stabilizing influence upon the economic process.13/

While much can be said for states contributing to general economic stability through the proper timing and financing of their capital outlay programs, application of the counter-cyclical fiscal policy theory, at least during periods of economic prosperity, is made difficult for two reasons. First, a substantial portion of the long-term capital outlay programs of numerous states is urgently required and cannot be put off until the upswing has run its course and the forces of economic recession and depression have set in. Secondly, the size of non-postponable capital outlay expenditures in relation to other fiscal circumstances might in some instances call for a larger amount of borrowing than justified by a rigid adherence to counter-cyclical fiscal policy.

Indeed, it is altogether possible that the theory of counter-cyclical fiscal policy which grew out of the depressed Thirties and received sustenance from the struggle with postwar inflationary forces requires re-evaluation in the light of structural changes in the economy and built-in stabilizers that will undoubtedly modify the amplitude and periodicity of future cyclical fluctuations.

13/ Besides contributing to economic stability, counter-cyclical fiscal policy is supposed to concentrate public construction in periods of economic recession and depression when construction costs and interest rates both are low, while a system of pay-as-you-go financing allegedly encourages public construction during periods of economic prosperity when construction costs are high. Haig and Shoup, *op. cit.*, pp. 541-42. The relative effect of the two methods of financing upon the timing of capital outlay expenditures actually depends, however, upon the extent to which such expenditures are permissive and postponable.

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Summary and Conclusions

Due to the level of replacement, the rate of obsolescence, and the increasing demand for services which only expanded facilities can provide, capital outlay, even excluding highways, has in recent years reached a point where in many states it is a fairly large and more or less inflexible item of general expenditures. This, perhaps more than any other, is the overriding issue in determining what method of financing ought to be used. Were these essentially non-postponable expenditures to be financed principally through borrowing, then over and beyond the added cost due to interest charges, too large a proportion of future state revenues might be deflected to debt service, with all that this implies for the flexibility of fiscal operations. Were they to be financed principally on a pay-as-you-go basis from current revenue, then in many states, at least, there would result an inordinate rise in tax rates or the widespread adoption of new taxes. Thus it appears that states faced with the problem of continuously reoccurring capital outlay expenditures of a sizeable magnitude must by necessity take stock of their long-range capital outlay requirements and work out a system of dual financing consistent with individual fiscal circumstances and capabilities. Wherever possible, self-liquidating projects should be considered as a means of lessening the tax burden.

CHAPTER III

FORMULA FOR PARTIAL PAY-AS-YOU-GO FINANCING

Introduction

Capital improvement expenditures in the State of Maryland during the six-year period, 1948-1953, financed from all sources ranged from a low of $6,327,482 in 1948 to a high of $24,213,793 in 1952, as shown in Table 4. Of the $81,284,153 spent for capital improvements over the period, 70.22% was financed through cash disbursements from bond issues, 27.82% through the allocation of budgetary surpluses, and 1.96% through operating budget appropriations of current revenue.

Although bond issues were by far the most important source of funds for the financing of capital improvement expenditures, the proportion of non-deficit financed expenditures was perhaps larger than commonly supposed. Indeed, the action of the 1949 General Assembly in allocating $23,539,300 of General Fund surplus to capital improvements prevented the State debt which rose by $99,787,000 between 1948 and 1953 from increasing by a still larger figure. The exceedingly small amount of operating budget expenditures for this purpose, however, clearly demonstrates that capital outlay by no means competes effectively with other budgetary items for current revenue in the State of Maryland. It is interesting to note in this connection that total operating budget expenditures for capital outlay expressed as a ratio of revenue (exclusive of federal funds) amounted to only 0.17% for the period and never exceeded 0.35% in any one year.

As a source of funds for capital improvements, budgetary surpluses are now near the vanishing point and the prospect of future accumulations is not at this time altogether bright.14/

14/ In his 1954 Budget Message, the Governor advised the General Assembly as follows: "On the revenue side, surplus which has been available to balance budgets has dropped sharply." The current estimate for the General Fund surplus, as of June 30, 1955, is $1,245,935, in contrast to a surplus of $6,004,533 as of July 1, 1954.

TABLE 4

REVENUE SOURCES FOR FINANCING CAPITAL IMPROVEMENTS, STATE OF MARYLAND, 1948-1953
(Excluding Highways)

Year	Cash Disbursements Bond Issues[1]	Construction Funds from Surplus[2]	Operating Budget[3]	Total Capital Improvement Expenditures	Revenue[4]
1948	$ 5,909,176.90	$ 7,100.00	$ 411,205.21	$ 6,327,482.11	$116,004,219.00
1949	8,434,033.04	74,918.26	74,985.89	8,583,937.19	135,989,288.00
1950	6,913,761.22	1,420,317.37	209,336.65	8,543,415.24	148,891,412.00
1951	8,615,866.56	6,987,988.39	235,845.72	15,839,700.67	161,401,836.00
1952	13,744,807.90	9,864,403.50	604,582.00	24,213,793.40	174,936,538.00
1953	13,460,520.20*	4,258,116.60	57,188.00**	17,775,824.80[4]	185,422,762.00
1948-1953	57,078,165.82	22,612,844.12	1,593,143.47	81,284,153.41	922,646,055.00

Year	Per Cent of Total Capital Improvement Expenditures Financed From: Surplus	Operating Budget	Surplus and Operating Budget Combined	Operating Budget Expenditure as a Per Cent of Revenue	Operating Budget and Surplus Expenditures as a Per Cent of Revenue
1948	0.11%	6.50%	6.61%	0.35%	0.36%
1949	0.87	0.87	1.74	0.06	0.11
1950	16.62	2.45	19.07	0.14	1.09
1951	44.12	1.49	45.61	0.15	4.48
1952	40.74	2.50	43.24	0.35	5.98
1953	23.95	0.32	24.27	0.03	2.33
1948-1953	27.82	1.96	29.78	0.17	2.62

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[1] Annual Report of the Comptroller of the Treasury. "Cash Disbursements from the State Treasury" (excludes public school loans).

[2] Annual Report of the Comptroller of the Treasury. "Statement of General Fund and Special Fund Appropriation Accounts."

[3] Maryland State Budget. Item 14. Items 601-3 before 1953.

[4] Annual Report of the Comptroller of the Treasury. "Net Cash Receipts" minus "State Bond Issues" and "Federal Government Receipts."

* Includes $495,755.64 disbursed from University of Maryland self-liquidating bond issue.

** Appropriated.

Unless, therefore, increased amounts of current revenue are allocated to capital outlay, the whole of future expenditures will by necessity be financed through the creation of new debt. This would not be a matter of particular concern were it not for the fact that despite a sharp reduction in programs recommended by the Maryland State Planning Commission in recent years[15] irreducible demands for replacement, modernization, and construction of new facilities will cause annual capital outlay authorizations to persist at a relatively high figure. Maryland, like many other states, is thus faced with the problem of continuously reoccurring capital expenditures of a sizeable magnitude. In light of the current level of the State debt and future debt service requirements, a planned program of dual financing is clearly called for.

Proposed Formula for Determining Amount of Pay-As-You-Go Financing

To what extent, then, ought annual capital improvement authorizations be financed on a pay-as-you-go basis from current revenue? In reply to this question, the following formula is proposed:

$$C = 0.02R$$

where

C = current revenue appropriated to capital outlay

R = average annual revenue (exclusive of federal funds) of preceding five-year period[16]

By means of the above formula, the amount of current revenue appropriated to capital outlay each year is fixed at 2% of the average annual revenue of the State during the preceding five-year period, after deducting

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[15] The $9,698,300 program recommended on September 15, 1954 was the lowest submitted in the past ten years.

[16] Annual revenue as defined is the equivalent of "net cash receipts" after deducting "state bond issues" and "federal government receipts," all three of which are found in the Annual Report of the Comptroller.
It is interesting to note that the most conservative formula for determining the maximum debt limit and the safe margin of borrowing shown in the Commission's study "Management and Limits of the State Debt," also embodies the average annual revenue (exclusive of federal funds) of the preceding five-year period. There is no necessary interdependence, however, between the two formulas.

federal funds. The use of a moving average serves two purposes, namely: (a) to prevent the exceptional revenue experience of any one previous year from influencing too greatly the amount of current revenue appropriated to capital outlay; (b) to insure that with rising levels of State revenue some portion of the increase each year will be dedicated to holding in check the amount of borrowing. With respect to the fixed percentage of average annual revenue chosen, the Commission's survey disclosed that, for those states whose non-deficit financed expenditures consisted principally of allocations from current revenue rather than surplus, the ratio of pay-as-you-go financed expenditures to revenue (exclusive of federal funds) over the period 1948-1953 ranged from 1.6% to 6.9%. Certainly, the 2% selected can be accepted as a decidely conservative rate.

Application of the Formula

What would be the amount of pay-as-you-go financed appropriations were, for example, the proposed formula put into effect by the next General Assembly. Annual revenue ("net receipts" after deducting "federal government receipts" and "state bond issues") for each of the five preceding years are shown below:

Fiscal Year	Annual Revenue
1950	$148,891,412
1951	161,401,836
1952	174,936,538
1953	185,422,762
1954	188,259,376
Five-year Total	$858,911,924

Average annual revenue for the five-year period preceding the current fiscal year is thus equal to the total of $858,911,924 divided by 5, or, $171,782,385. Substituting this figure into the formula:

$$\begin{aligned} C &= 0.02R \\ &= 0.02 \times \$171{,}782{,}385 \\ &= \$3{,}435{,}648 \end{aligned}$$

Thus, pay-as-you-go financed appropriations would amount to $3,435,648, or

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35.4% of the $9,698,300 program recommended by the State Planning Commission for the 1956 fiscal year.

Taxes and Pay-As-You-Go Financing

In view of present fiscal prospects, transition to a dual system of financing under the proposed formula would call for additional revenue deriving from either an increase in current tax rates or the adoption of new taxes. Once the means of pay-as-you-go financing has been integrated into the revenue system of the State by whichever method, however, future adjustments under normal circumstances would not be required. This is so because during periods of rising levels of economic activity pay-as-you-go commitments under the formula would be met out of increased revenue, whilst during periods of falling levels of economic activity pay-as-you-go commitments would automatically decrease. If for any one year, however, there occurred an abnormal decline in State revenue, pay-as-you-go commitments could only be met through a further adjustment. In such instance, it is suggested that rigid application of the formula be relaxed and that a ratio smaller than the 2% of the average annual revenue of the preceding five-year period be used in determining the amount of pay-as-you-go financing.

If put into effect during the 1956 fiscal year, the Commission's proposed program for dual financing would require additional general revenue totaling $3,435,648. This would by no means impose an undue burden on the taxpayers of the State, for considered in relation to individual income, Maryland taxes are exceedingly low as compared to other states. As shown in the Appendices C and D, Maryland ranked 40th out of the 48 states for the year 1953, in the amount of State and local taxes collected expressed as a percentage of individual income.

Since, however, Maryland during the coming fiscal year will need additional revenues in order to support an expanded general budget, it is

perhaps desirable that transition to the dual system of financing be scheduled for the 1957 fiscal year, so that the revenue requirements of the plan can be accorded proper study by the budgetary authorities within the broader context of the over-all fiscal problem.[17/] There is nothing, moreover, in the present fiscal situation which makes imperative the immediate adoption of partial pay-as-you-go financing, for the safe debt margin as determined by the most conservative formula disclosed in the Commission's report, "Management and Limits of the State Debt," stood at $34,707,385 as of June 30, 1954.

How Should Pay-As-You-Go Commitments Under the Proposed Formula Be Met?

From the standpoint of practical application, the one remaining question at issue is whether pay-as-you-go commitments under the proposed formula should be met through annual allocations from current general revenue sources or from a specific tax source reserved for the purpose. Upon careful consideration of the matter, the Commission recommends the first of these two methods of allocating current funds for the following reasons: (1) Since the yield of all revenue sources taken collectively tends to be more stable than the yield of a single tax source, allocations from general current revenue would enhance the effective application of the proposed formula. (2) Allocations from a specific tax source under present fiscal conditions would require the introduction of a new levy for the purpose, which, aside from the matter of collections, would add to the complexity of the State's present revenue system. While the introduction of a new tax may readily be justified to meet general revenue needs, there is ample scope

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[17/] In investigating additional sources of revenue for general purposes, consideration ought certainly be given to Michigan's "business activities tax" adopted in 1953. For a useful discussion of this levy, see the article, "Michigan's Business Activities Tax," by Frank M. Landers in the October 1954 issue of State Government.

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within the present revenue system to meet the limited requirements of pay-as-you-go financing.[18] (3) Allocations from general current revenue would meet with wider public acceptance inasmuch as a distinct nuisance value might easily attach to the specific tax selected and levied for the purpose. (4) The cost of pay-as-you-go financing would be made to fall more equitably on all classes of taxpayers if met through a general upward adjustment of rates rather than through the levy of a specific tax.

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[18] In the event that a new tax or taxes is levied for general revenue purposes, however, the rate or rates might be set with the requirements of pay-as-you-go financing also in view.

SUMMARY AND RECOMMENDATIONS

In developing a recommended program of partial pay-as-you-go financing for the State of Maryland, answers were first sought to three questions: To what extent have other states been financing their capital improvement expenditures (exclusive of highways) without recourse to borrowing? What methods were used by them in allocating current revenues and/or surpluses to this purpose? In view of the seeming permissiveness that attaches to the financing of capital improvement expenditures, are there any principles of sound public finance that offer guidance in determining whether expenditures ought to be financed through bond issues or allocations of current funds, or both?

The results of this inquiry may briefly be summarized as follows:

1. A special survey covering all of the states disclosed that for the six-year period, 1948-1953, twenty-eight of the thirty-six responding states financed 50% and upwards of their capital improvement expenditures without recourse to borrowing; twenty-one states financed 80% and upwards; thirteen states financed the entire amount, that is, 100%.

Maryland, with a ratio of 29.8%, was included among the eight states that financed less than half of their capital improvement expenditures over the period from current and/or accumulated revenue.

2. Four principal methods were used by the states in allocating current and/or accumulated revenue: (a) to accord to capital outlay items the same budgetary and legislative review as any other current expenditure request; (b) to allocate funds to capital outlay after all other current expenditure requests had been met; (c) to allocate systematically surpluses accumulated during each preceding fiscal period, either entirely, or, in part, to capital outlay; (d) to dedicate revenues from specific tax or non-tax sources to capital outlay.

3. Critical examination of the various principles of sound public finance relative to the financing of capital outlay disclosed that there is no single criterion which can be followed as a rigid guide to fiscal policy. In Maryland, where capital outlay is a sizeable and continuously reoccurring item in the State budget, a system of partial pay-as-you-go financing based upon long-range capital demands, on the one hand, and revenue capabilities, on the other, is clearly called for.

The Commission thus recommends that the amount of current revenue appropriated to capital improvements each year be fixed at 2% of the average annual revenue of the State during the preceding five-year period.[19] It is further recommended that pay-as-you-go commitments be met through annual allocations from current general revenue sources rather than from a specific tax source reserved for the purpose in order to insure a more effective and equitable operation of the program.

If put into effect by the 1955 General Assembly, this program of partial pay-as-you-go financing would call for additional revenue of approximately $3,500,000, with the balance of the authorized capital improvement program to be financed through a general construction loan. However, since there is nothing in the present fiscal situation which makes imperative the immediate adoption of partial pay-as-you-go financing, it is perhaps desirable that transition to the dual system of financing be postponed a year, so that the revenue requirements of the plan can be accorded proper study by the budgetary authorities within the broader context of over-all revenue demands.

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[19] See page 23 for definition of "average annual revenue" and page 24 for application of 2% formula.

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APPENDICES

April 9, 1954

APPENDIX A

SURVEY OF REVENUE SOURCES FOR FINANCING CAPITAL IMPROVEMENTS ON THE STATE LEVEL

REPLY FOR STATE OF ____________________

INFORMATION SUPPLIED BY ____________________
(signature and title)

(agency) ____________________

(mailing address) ____________________

****

1. What were the total capital improvement expenditures for land, construction, fees, and durable equipment (excluding all highway expenditures) for the following budget years?

1948		1951	
1949		1952	
1950		1953	

2. What portion of these capital improvement expenditures was financed on a pay-as-you-go basis by current revenue receipts, exclusive of Federal funds?

	AMOUNT	% OF TOTAL REVENUE RECEIPTS (Excluding Federal Funds)
1948		
1949		
1950		
1951		
1952		
1953		

3. If capital improvement expenditures are financed out of current revenues, wholly or partially, are specific tax revenues reserved for these expenditures? Yes ☐ No ☐. If yes, specify tax source (or sources), rate, and revenue derived in each budget year.

	TAX SOURCE	TAX RATE	REVENUE
1948			
1949			
1950			
1951			
1952			
1953			

4. If specific tax is not used, what method is followed in allocating current revenue for capital improvement expenditures?

____

____

____

5. Are you contemplating any innovations in the method of financing future capital improvements? Yes ☐ No ☐. If yes, please explain.

____

____

(use additional sheets, if necessary)

Please return to:
Maryland State Planning Commission, 100 Equitable Bldg., Baltimore 2, Md.

APPENDIX B

SUMMARY OF REPLIES SUBMITTED BY FORTY-FOUR STATES: CAPITAL OUTLAY FINANCED FROM CURRENT AND ACCUMULATED REVENUE

State	Capital Outlay Financed from all Sources, 1948-53[1]	Capital Outlay Financed from Current and/or Accumulated Revenue, 1948-53[2]	Method Used in Allocating Current and/or Accumulated Revenue[3]
(1)	(2)	(3)	(4)
Alabama	$27,832,000	$22,370,000	No current revenues allocated; amount shown in Column (3) financed through transfers of surpluses accumulated in "certain" funds.
Arizona	$29,236,310	$21,705,904	Financing of expenditures closely linked to property tax levy which is used to make up difference between appropriations (including capital items) and available fiscal resources (anticipated current revenues plus previous year-end General Fund surplus). Capital items carefully studied by legislature with view to holding property tax levy at fairly stable figure.
Arkansas	$21,995,654	$16,734,389	Legislative appropriation of general current revenues as need arises.

For footnotes, see end of table.

APPENDIX B (Continued)

State	Capital Outlay Financed from all Sources, 1948-53[1]	Capital Outlay Financed from Current and/or Accumulated Revenue, 1948-53[2]	Method Used in Allocating Current and/or Accumulated Revenue[3]
(1)	(2)	(3)	(4)
California	$506,354,963	$506,354,963	Principally appropriations from Capital Outlay and Savings Fund; balance financed through General and special fund allocations and revenues from horse racing. Capital Outlay and Savings Fund resources consist of reserves set aside in 1943 to meet postwar building needs and subsequent General Fund transfers.
Colorado	$18,587,812	$11,527,985	Amount shown in Column (3) reflects appropriations from building mill levy funds of 23 State institutions. During period, General Assembly appropriated $695,000 from General Fund to supplement building mill levy income of 3 State institutions; also transferred money from 2 mill levy funds to 2 others.
Connecticut	$76,780,190	$29,880,707	General Assembly appropriation.
Florida	$64,635,000[4]	[5]	Major proportion of expenditures since 1948 financed through appropriations from General Revenue Fund. A few expenditures financed through various trust funds established and used for purpose.

For footnotes, see end of table.

APPENDIX B (Continued)

State	Capital Outlay Financed from all Sources, 1948-53[1/]	Capital Outlay Financed from Current and/or Accumulated Revenue, 1948-53[2/]	Method Used in Allocating Current and/or Accumulated Revenue[3/]
(1)	(2)	(3)	(4)
Georgia	$64,389,000	5/	Separate General Fund appropriation for capital outlay.
Idaho	$11,563,339	$11,563,339	Legislative appropriation of revenues in excess of operating requirements.
Illinois	$149,182,000	$149,182,000	General Revenue Fund appropriations from current and accumulated receipts. Legislative allocations based upon need and fiscal resources after operating and aid expenditures are determined. (Total shown in Column (2) does not include expenditure for dormitories, armories, etc., financed through issue of revenue bonds.)
Indiana	$75,299,999	$75,299,999	Alcoholic beverage taxes allocated to capital outlay. Revenues from this source totalled $35,251,823 over period.
Iowa	$32,469,402	$32,469,402	Legislative appropriation. No particular method or formula.
Kansas	$41,850,000[4/]	5/	Legislative appropriation from General Fund resources for major buildings and major equipment. Durable equipment, as such, covered by single-line appropriation for "Maintenance and Repair." Property mill levy for

For footnotes, see end of table.

APPENDIX B (Continued)

State	Capital Outlay Financed from all Sources, 1948-53[1]	Capital Outlay Financed from Current and/or Accumulated Revenue, 1948-53[2]	Method Used in Allocating Current and/or Accumulated Revenue[3]
(1)	(2)	(3)	(4)
			educational and eleemosynary institutions.
Kentucky	$60,834,600	$33,300,000	Legislative appropriation of surpluses accumulated both during and since World War II which are now depleted. No expenditures from current revenues so far.
Louisiana	$39,127,800	$39,127,800	Legislative appropriation of General Fund revenues in excess of operating requirements.
Maine	$6,529,238	$3,201,585	Major capital improvements financed from unappropriated surplus and durable equipment from current revenue.
Maryland	$81,284,153	$24,205,988	Legislative appropriation. $22,612,844 of total shown in Column (3) financed through allocations from surpluses; the balance, or $1,593,144, financed from operating budget revenue.
Massachusetts	$122,319,301	$4,343,566	Current revenue for capital outlay not allotted.
Michigan	$116,243,878	$97,384,252	Expenditures treated same as any other authorized by legislature. No specific method or formula.

For footnotes, see end of table.

APPENDIX B (Continued)

State (1)	Capital Outlay Financed from all Sources, 1948-53[1] (2)	Capital Outlay Financed from Current and/or Accumulated Revenue, 1948-53[2] (3)	Method Used in Allocating Current and/or Accumulated Revenue[3] (4)
Minnesota	$88,999,000	[5]	Legislative appropriation from Building Fund. General Fund appropriation for equipping of buildings.
Mississippi	$39,500,000	$39,500,000	Legislative appropriation.
Missouri	$48,896,000	[5]	Legislative appropriations from Postwar Reserve Fund which was established in 1946 through transfer of $99,800,000 from Net General Revenue Fund surplus. Additional $24,800,000 transferred from surplus during 1953 legislative session. Postwar Reserve Fund created to take care of capital outlay needs; some diversion to other uses.
Montana	$19,831,122	[5]	Legislative appropriation.
Nebraska	$11,321,229	$11,321,229	Allocations of property tax revenues.
Nevada	$3,023,679	$1,594,382	Legislative appropriations from Postwar Funds ($961,113), General Funds ($101,495), Highway Building Funds ($285,430), Governor's Emergency Funds ($46,344). Also gifts amounting to $200,000.

For footnotes, see end of table.

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[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
		[illegible]	[illegible]

APPENDIX B (Continued)

State (1)	Capital Outlay Financed from all Sources, 1948-53[1] (2)	Capital Outlay Financed from Current and/or Accumulated Revenue, 1948-53[2] (3)	Method Used in Allocating Current and/or Accumulated Revenue[3] (4)
New Hampshire	$9,444,955	$2,662,134	Legislative appropriation for each item included as part of operating budget.
New Jersey	$70,477,300	$17,577,100	[6]
New York	$274,607,229	$274,607,229	Legislative appropriations from surpluses accumulated during World War II and subsequent transfers of current revenue (principally General Fund) to Capital Construction Fund.
North Carolina	$169,432,736	[5]	Allocations of General Fund surpluses; receipts from sale of property, fire losses, gifts; transfers from other funds. Accounted for more than half the total shown in Column (2).
Ohio	$144,870,000	$144,870,000	Surplus of each preceding biennium appropriated entirely for capital improvements. Revenues in excess of budgetary estimates have accumulated ever since mid-forties by holding operating costs down. Submission of balanced budget to legislature mandatory. Constitutional limitation on borrowing in excess of $750,000 without referendum.

For footnotes, see end of table.

APPENDIX B (Continued)

State (1)	Capital Outlay Financed from all Sources, 1948-53 1/ (2)	Capital Outlay Financed from Current and/or Accumulated Revenue, 1948-53 2/ (3)	Method Used in Allocating Current and/or Accumulated Revenue 3/ (4)
Oklahoma	$107,622,542	$68,613,890	Legislative appropriation. Income from certain State owned land earmarked for capital improvement of institutions of higher learning.
Oregon	$57,359,133	$47,908,418	Capital improvement items receive same budgetary and legislative review as any other current expenditure request. Agencies depending upon earmarked revenues restricted to such funds when their capital outlay requests are reviewed.
Pennsylvania	$137,405,899	$88,700,608	No fixed method of allocating current revenue for capital outlay. (Totals shown in Columns (2) and (3) do not include expenditures of General State Authority which has authorization to borrow $330,000,000 for capital improvements. Since its organization in May 1949, Authority has made allocations totaling $198,627,233.)
Rhode Island	$ 33,503,664	$ 4,403,631	Capital outlay requests presented by Governor to General Assembly accompanied by recommendation with respect to financing. General Assembly

For footnotes, see end of table.

APPENDIX B (Continued)

State	Capital Outlay Financed from all Sources, 1948-53[1]	Capital Outlay Financed from Current and/or Accumulated Revenue, 1948-53[2]	Method Used in Allocating Current and/or Accumulated Revenue[3]
(1)	(2)	(3)	(4)
Rhode Island (Continued)			exercises independent action on special legislation for capital improvement projects. Designates method of financing all projects authorized.
South Dakota	$10,566,069	$10,566,069	Legislative appropriation.
Tennessee	$27,668,610	$26,570,541	Legislative appropriation. Since 80% of sales tax is earmarked for educational purposes, it must be assumed that $6,300,000 allocated to Department of Education for capital outlay during period was from this source.
Texas	$160,509,810	$133,385,895	Legislative appropriation. Of the amount shown in Column (3), $48,024,949 appropriated from three special building funds which received dedicated revenues consisting of (a) earnings from Permanent University Fund investments; sale of sand, shell and gravel; lease rentals of U. of Texas lands, (b) shared tax on cigaretts; (c) property tax.
Utah	$12,783,805	5/	Approximately $2,000,000 appropriated from Reserve Building

For footnotes, see end of table.

APPENDIX B (Continued)

State	Capital Outlay Financed from all Sources, 1948-53[1]	Capital Outlay Financed from Current and/or Accumulated Revenue, 1948-53[2]	Method Used in Allocating Current and/or Accumulated Revenue[3]
(1)	(2)	(3)	(4)
Utah (Continued)			Fund and General Fund over period. State levies 2% sales tax for welfare purposes; amounts accumulated in excess of $5,000,000 transferred to Reserve Building Fund by act of legislature.
Vermont	$8,269,540	$2,840,769	Appropriations based upon departmental budget requests.
Virginia	$59,266,777[7]	$59,266,777[7]	General Fund appropriation of current revenues based upon legislative modification or endorsement of Governor's Executive budget. Budget allocates estimated current revenues for both operating and capital outlay needs.
Washington	$122,467,438	$94,575,959	Legislative appropriation of current revenues.
W. Virginia	$47,676,030	$45,854,133	Legislative appropriation from surplus accumulated in General Revenue Fund from each preceding biennium. Soft drink tax on bottle and syrup levied for construction of medical school at W. Virginia University. Revenues for two years tax in force (1952 and 1953) totaled $6,044,305.

For footnotes, see end of table.

APPENDIX B (Continued)

State (1)	Capital Outlay Financed from all Sources, 1948-53[1] (2)	Capital Outlay Financed from Current and/or Accumulated Revenue, 1948-53[2] (3)	Method Used in Allocating Current and/or Accumulated Revenue[3] (4)
Wisconsin	$39,388,305	$37,756,191	2% of appraised value of state property set aside annually out of General Fund revenues and transferred to State Building Fund; also, direct appropriations from General Fund to Building Construction Fund. Since 1950 revenues from 1¢ per pack tax on cigarettes dedicated to capital outlay. Revenue from this source totaled $13,592,150.
Wyoming	$8,028,327	$8,028,327	Legislative appropriation from General Fund Surplus.

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[1] Data supplied in answer to Question #1 of questionnaire, unless otherwise indicated.

[2] Data supplied in answer to Question #2 of questionnaire.

[3] Information supplied in answer to Question #3 and/or Question #4 of questionnaire.

[4] Source: U. S. Bureau of the Census. Compendium of State Government Finances.

[5] No data supplied by respondent to questionnaire.

[6] Method used in allocating current and/or accumulated revenue not indicated.

[7] Capital outlay appropriations rather than expenditures.

APPENDIX C

STATE AND LOCAL TAX BURDEN IN 48 STATES - 1953

	Local Tax 1/ Collections (Thousands)	State Tax 1/ Collections (Thousands)	Total State and Local Taxes (Thousands)	Income 2/ Payments (Millions)
U. S. TOTALS - 48 STATES	$10,244,192	$10,552,194	$20,796,386	$268,803
Alabama	70,702	158,963	229,665	3,248
Arizona	46,079	74,540	120,619	1,370
Arkansas	40,332	102,492	142,824	1,793
California	1,034,519	1,141,517	2,176,036	24,856
Colorado	110,038	111,431	221,469	2,367
Connecticut	160,912	138,306	299,218	4,744
Delaware	9,943	25,573	35,516	825
Florida	188,538	252,485	441,023	4,586
Georgia	119,476	218,055	337,531	4,245
Idaho	42,218	38,765	80,983	851
Illinois	704,303	514,435	1,218,738	18,800
Indiana	257,638	284,117	541,755	7,584
Iowa	217,241	169,353	386,594	3,954
Kansas	151,528	137,238	288,766	3,110
Kentucky	94,029	137,911	231,940	3,460
Louisiana	91,409	287,188	378,597	3,602
Maine	59,387	56,702	116,089	1,251
Maryland	142,718	165,486	308,204	4,719
Massachusetts	475,380	321,734	797,114	8,880
Michigan	420,539	582,444	1,002,983	13,723
Minnesota	233,896	227,589	461,485	4,724
Mississippi	63,337	112,427	175,764	1,821
Missouri	211,952	207,221	419,173	6,768
Montana	44,913	37,406	82,319	1,037
Nebraska	104,114	60,625	164,739	2,065
Nevada	18,525	16,804	35,329	448
New Hampshire	55,904	26,967	82,871	854
New Jersey	539,980	189,001	728,981	10,771
New Mexico	18,837	70,368	89,205	1,021

For footnotes, see following page.

APPENDIX C (continued)

STATE AND LOCAL TAX BURDEN IN 48 STATES - 1953

	Local Tax 1/ Collections (Thousands)	State Tax 1/ Collections (Thousands)	Total State and Local Taxes (Thousands)	Income 2/ Payments (Millions)
New York	$1,734,747	$1,119,831	$2,854,578	$32,871
North Carolina	110,205	287,817	398,022	4,599
North Dakota	41,482	44,472	85,954	804
Ohio	483,533	491,594	975,127	16,840
Oklahoma	86,024	196,181	282,205	2,986
Oregon	111,129	129,779	240,908	2,762
Pennsylvania	610,065	594,795	1,204,860	19,419
Rhode Island	30,950	56,172	87,122	1,429
South Carolina	56,281	159,477	215,758	2,403
South Dakota	55,440	36,060	91,500	895
Tennessee	101,768	185,458	287,226	3,948
Texas	411,953	447,430	859,383	12,279
Utah	44,834	49,805	94,639	1,108
Vermont	23,581	27,618	51,199	528
Virginia	126,662	188,654	315,316	4,829
Washington	120,925	265,630	386,555	4,663
West Virginia	49,380	123,942	173,322	2,435
Wisconsin	296,678	252,885	549,563	6,023
Wyoming	20,168	27,451	47,619	505

1/ U. S. Department of Commerce, Bureau of the Census, State and Local Government Revenue in 1953, October 27, 1954.

2/ U. S. Department of Commerce, Office of Business Economics, "State Income Payments in 1953." Survey of Current Business, August 1954. Figures for the States of Maine, Maryland, New Hampshire, New Jersey, New York, and Virginia are adjusted on a residence basis, as described in footnote 2, Table 5, of the cited article. District of Columbia data are excluded.

APPENDIX D

TAX BURDEN AS PER CENT OF STATE INCOME PAYMENTS - 1953

	Per Cent			Rank		
	Local Taxes	State Taxes	Total	Local	State	Total
U. S. TOTALS - 48 STATES	3.81	3.93	7.74			
Alabama	2.18	4.89	7.07	44	16	36
Arizona	3.36	5.44	8.80	27	11	19
Arkansas	2.25	5.72	7.97	43	7	28
California	4.16	4.59	8.75	17	21	20
Colorado	4.65	4.71	9.36	14	18	13
Connecticut	3.39	2.92	6.31	26	46	43
Delaware	1.21	3.10	4.30	48	41	48
Florida	4.11	5.51	9.62	19	10	9
Georgia	2.81	5.14	7.95	35	14	29
Idaho	4.96	4.56	9.52	9	22	10
Illinois	3.75	2.74	6.48	23	47	42
Indiana	3.40	3.75	7.14	25	34	34
Iowa	5.49	4.28	9.78	3	26	4
Kansas	4.87	4.41	9.29	12	25	14
Kentucky	2.72	3.99	6.70	36	30	39
Louisiana	2.54	7.97	10.51	40	1	2
Maine	4.75	4.53	9.28	13	23	15
Maryland	3.02	3.51	6.53	32	38	40
Massachusetts	5.35	3.62	8.98	4	36	18
Michigan	3.06	4.24	7.31	31	27	32
Minnesota	4.95	4.82	9.77	10	17	5
Mississippi	3.48	6.17	9.65	24	6	8
Missouri	3.13	3.06	6.19	30	43	45
Montana	4.33	3.61	7.94	16	37	30
Nebraska	5.04	2.94	7.98	7	44	27
Nevada	4.14	3.75	7.89	18	33	31
New Hampshire	6.55	3.16	9.70	1	40	6
New Jersey	5.01	1.75	6.77	8	48	38
New Mexico	1.84	6.89	8.74	47	2	21
New York	5.28	3.41	8.68	5	39	23
North Carolina	2.40	6.26	8.65	41	5	24
North Dakota	5.16	5.53	10.69	6	9	1
Ohio	2.87	2.92	5.79	34	45	47
Oklahoma	2.88	6.57	9.45	33	4	11
Oregon	4.02	4.70	8.72	21	19	22
Pennsylvania	3.14	3.06	6.20	29	42	44
Rhode Island	2.17	3.93	6.10	45	31	46
South Carolina	2.34	6.64	8.98	42	3	17
South Dakota	6.19	4.03	10.22	2	29	3
Tennessee	2.58	4.70	7.28	39	20	33
Texas	3.35	3.64	7.00	28	35	37
Utah	4.05	4.50	8.54	20	24	25
Vermont	4.47	5.23	9.70	15	13	7
Virginia	2.62	3.91	6.53	37	32	41
Washington	2.59	5.70	8.29	38	8	26
West Virginia	2.03	5.09	7.12	46	15	35
Wisconsin	4.93	4.20	9.12	11	28	16
Wyoming	3.99	5.44	9.43	22	12	12

For sources, see Appendix C.

Figures may not total because of rounding.